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**CLAYTRON**  
energy corporation

**ANNUAL REPORT 1976**

## **CLAYTRON ENERGY CORPORATION**

### **Corporate Information**

DIRECTORS ..... Walter G. Bahan, Calgary, Alberta  
Gary Schell, Vancouver, B.C.  
Gordon Yuen, Vancouver, B.C.

OFFICERS ..... Gary Schell—President  
Walter G. Bahan—Vice-President  
Gordon Yuen—Secretary Treasurer

EXECUTIVE OFFICE ..... 305 - 1030 West Georgia  
Vancouver, British Columbia  
V6E 2Y3

REGISTERED OFFICES ..... Du Moulin Black Brazier & Hall  
202 - 900 W. Pender Street  
Vancouver, British Columbia

REGISTRAR &  
TRANSFER AGENT ..... Crown Trust Co.  
455 Howe Street  
Vancouver, British Columbia

AUDITORS ..... Smith, Flynn, Staley & Co.  
225 - 4299 Canada Way  
Burnaby, British Columbia

BANKERS ..... Royal Bank of Canada  
Main Branches  
Vancouver, B.C.  
Calgary, Alberta  
Toronto-Dominion Bank  
Frankfurt, W. Germany

OIL CONSULTANTS ..... D & S Petroleum Consultants  
Calgary, Alberta, London England  
James A. Lewis Engineering Co. Ltd.  
Calgary, Alberta

MINERAL EXPLORATION  
CONSULTANTS ..... D.L. Cooke & Associates Ltd.  
16331 Bell Road  
Surrey, British Columbia

## DIRECTORS REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to present the annual report of Clayton Energy Corporation for the year ended October 31, 1976.

Of significant interest since the year end of October 31, 1976, is the announcement by the B.C. Government to build an 85-mile pipeline and natural gas processing plant for the Monkman Pass-Grizzly Valley gas reserves. Gas production from this area will generate a substantial increase in your Company's cash flow.

Since the year end of October 31, 1976, your Company has acquired the Mineral lease on the Kisameet clay deposit, along with all sales contracts in force at that time. The clay from this deposit is a mineral clay, which also contains the "Rare Earths". The German, Austrian and Swiss governments have approved the sale of clay in their countries as a natural pharmaceutical product. The clay is also being sold throughout Europe and South Africa as a cosmetic product.

Since acquiring the Clay lease and all related contracts in effect at the time of acquisition, your Company has successfully negotiated a long term agreement with the European manufacturer and distributor. According to this latter agreement, your Company will provide to the European distributor during 1977, \$100,000.00 for television, newspaper advertising and marketing of the product and, in return, will receive a royalty of 10% of all sales for the first five years and 5% of all sales for the next three years of the contract. To date approximately \$200,000.00 has been spent by our European distributor to market Canada clay products in Europe. This effort has resulted in a substantial increase in sales.

Plans are being formulated to establish other markets throughout the world for the clay products during the forthcoming year. The anticipated cash flow from this product will enable the Company to develop many other resource ventures.

Oil and gas exploration and development continues to be of prime importance to the Company. The Company still maintains its oil and gas conces-

sions in the German North Sea. Hopefully, some farmouts for development on the German North Sea holdings can be made during the forthcoming year.

During the current year, the Company plans to embark upon an aggressive program for the acquisition and development of oil and gas reserves in Alberta. Capital expenditures for the past year amounted to \$4,000.00. Exploration and development net costs amounted to \$45,560.00. Oil and gas revenue for the past year was \$21,295.00.

The Directors wish to express their appreciation for the support you gave the Company during the past year, and we anticipate making some exciting announcements during the forthcoming year.

Respectfully submitted,  
On Behalf of the Board of Directors



Gary Schell, P.Eng.  
President

## MINERAL CLAY

The mineral clay from this deposit is known as Kisameet Clay. It is located on King Island, near the town of Bella Coola on the mainland coast of British Columbia.

The areal extent of the property is approximately 80 acres. About 90 holes have been drilled on the property, and a deposit of about 200,000 tons of clay has been proven. The clay from this deposit is a mineral clay, which also contains the "Rare Earths". The clay has been researched by Dr. Ernst Hauser, who was an internationally known colloidal chemist at Massachusetts Institute of

Technology, Dr. J. Allen Harris, Professor of Analytical Chemistry, and Dr. Ure, Professor of Physical Chemistry, both of whom were formerly associated with the University of British Columbia. The clay has been used by Dr. Bodo Kaiser, a Specialist in Dermatology, in Germany, and also by the Vancouver General Hospital.

The German, Austrian and Swiss governments have approved the sale of the clay in their countries as a natural pharmaceutical product. The clay is also being sold throughout Europe as a cosmetic product. The Company's European manufacturer and distributor has established in Europe viable markets for two products, namely, "Canada Healing Clay" and "Canada Clay Cosmetic".

This unique clay is now being researched in Europe to develop other products, such as mineral supplements in the form of pills, toothpaste, soap, shampoo, and baby powder.

During the forthcoming year, your Company will be working on establishing other markets throughout the world for the clay products. Management feels that this recent acquisition should contribute to a substantial increase in the Company's cash flow during the current year.



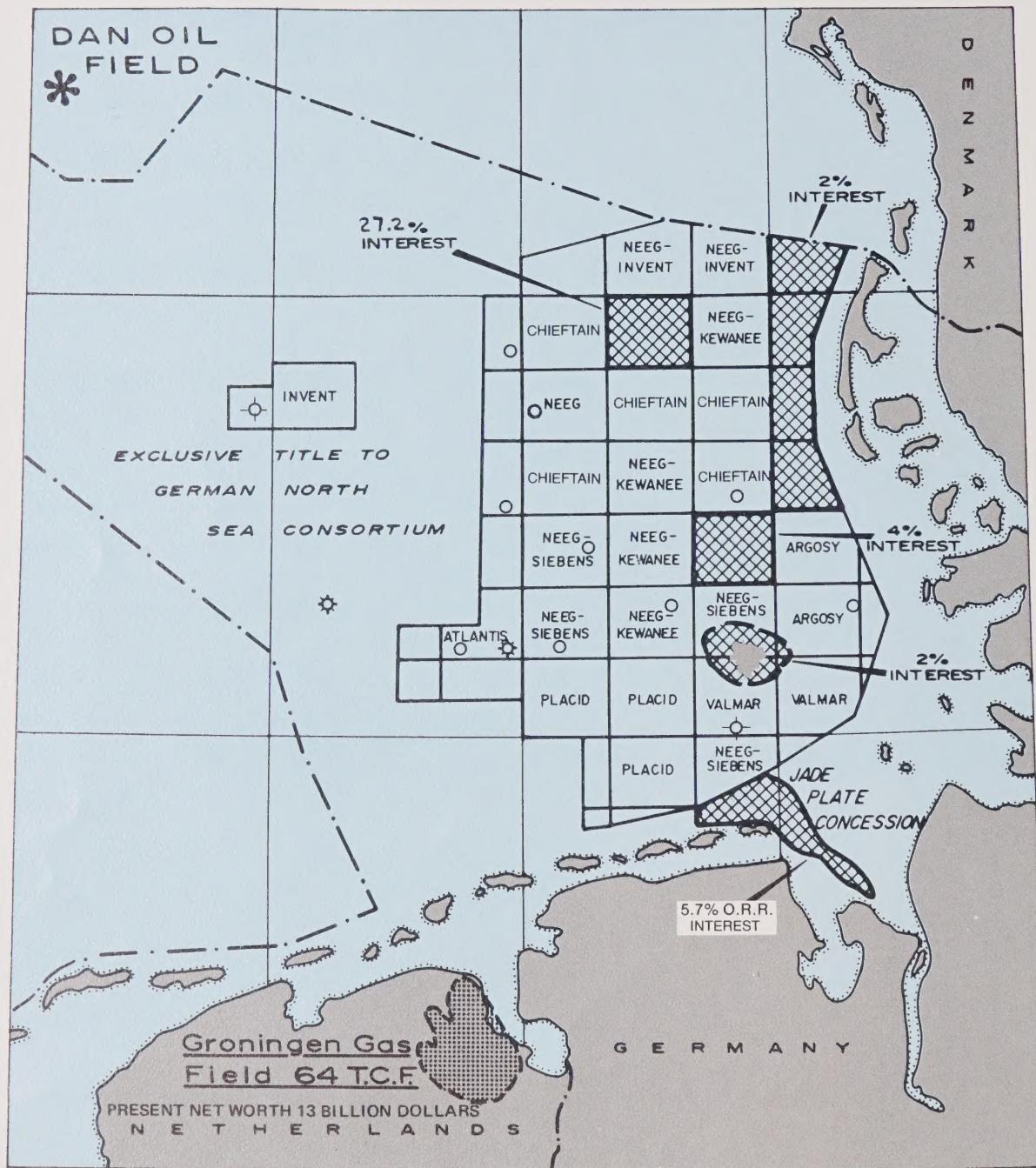
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CLAYTRON ENERGY CORPORATION  
**NORTH SEA HOLDINGS**  
GERMAN SECTION

SCALE IN MILES  
20 16 12 8 4 0 10 20

Sept. 1973

## SUMMARY OF OPERATIONS:

### NORTH SEA:

The North Sea is currently the world's most attractive and rewarding exploration area. The high success ratio and substantial discoveries made to date in the British and Norwegian sectors sets unprecedented achievement records in Petroleum Exploration.

The geology of the North Sea Basin is similar throughout, and the structures as mapped by recent seismic surveys in the German Sector are similar to those in the part of the basin which have been proven to contain large hydrocarbon reserves.

The Company holds various interests in six oil and gas exploration permits in the German Sector. The permits consist of eight separate blocks having an area of 524,700 gross acres. The recent seismic survey over five of these permits has confirmed several potentially productive structures with total closure of about 121,500 acres. The sixth permit (Jade Plate concession) comprises approximately 43,500 gross acres.

In the area of the Jade Plate concession jurassic sediments are known to occur, offering excellent source and reservoir rocks. A seismic program has been completed on the Jade Plate concession and a small structure has been indicated.

The West German Government has a helpful attitude towards private industry for the development of the country's oil and gas reserves. The Royalty on production is five percent. In addition, West Germany has a very stable political and economic climate and international oil prices will be received from the sale of all crude oil.

The Company's acreage in the West German shelf is favourably located with respect to known discoveries and to areas of probable discoveries. The acreage is between the Norwegian and Danish oilfields, the onshore oilfields of northwestern Germany, and the Groningen gas field in the Netherlands.

The structures outlined in the recent seismic survey are generally larger than those in the British and Norwegian Sectors. In addition, since proven reserves of hydrocarbons surround these structures, it would appear that there is an extremely high probability of finding large reserves on the Company's acreage.

The seismic survey has outlined on the Com-

pany's lands a total of eleven separate structures out of which eight are considered as significant and good. The lateral closure in acres of each structure has been measured and estimates of the potential reserves made. (Report by A.W. Holmes Jr.). Should all the structures contain hydrocarbons then the net reserves to the Company would be, if oil, 184 million barrels, or if gas, 1.862 trillion cubic feet.

In Block J-2 the Company has a 27.2% working interest. Plans are to farm out this Block to others for drilling and retain a small percentage.

In Blocks where the Company has small interests, plans are to participate by way of full working interest in the exploratory drilling.

### CANADA:

#### Oil Production:

During the year under review the Company produced crude oil from interests in 15 operating wells. The income per barrel of oil, to the Canadian producer has not changed since August 1973. In Saskatchewan because of the taxation policies of the Provincial and Federal Governments, the net per barrel to the producer has not been substantially increased from August 1973 prices.

#### Monkman Pass-Grizzly Valley Area: Gas Reserves

One of the proven assets of the Company of particular interest is its participation in the gas reserves in the Monkman Pass area of British Columbia.

The Monkman Pass is probably one of the largest gas reserves in North America. To date several gas wells have been drilled and completed.

The Company has 0.4% gross overriding royalty interest over a large portion of the productive area.

In their evaluation of the Company assets in the area, D & S Petroleum Consultants state that five horizons have been shown to be productive under Company lands. The announcement by the B.C. Government of an 85-mile gas pipeline and a natural gas processing plant to be built for this area caused a substantial increase in the value of the gas reserves. The increasing demand for natural

gas and resulting price rises will generate considerable cash flow for your company once production begins.

#### **Mackenzie-Delta Horton River Area—N.W.T.**

The Company's concessions in this area are farmed out to a major oil company. The Company has retained a 1.5% Gross Overriding Royalty on the total of 162,184 acres.

### **DEVELOPMENT PROGRAM—**

#### **ALBERTA:**

The Company has a policy of confining all Canadian exploration activity to the Province of Alberta. Basically the Company does not acquire acreage for inventory or trading purposes. Before any lands are acquired a geological study is completed and a potential hydrocarbon bearing prospect is delineated. In some cases before land acquisition geophysical work is also done in order to support the geological study. Thus when prospective lands are acquired they are normally ready for drilling. Some of the Company's acreage for which development plans are imminent is illustrated below.

#### **1. Kneehill:**

The Company discovered Devonian Nisku oil at its exploratory well in LSD 11-8-36-26 W4M. Because of water problems the well was abandoned. Additional drilling may be done in the future.

#### **2. Haynes South Clive:**

The Company holds 320 gross, 80 net acres of leases in this area along the Clive-Haynes, Devonian Nisku—Leduc productive trend which is undergoing very active exploration and drilling by competitors. Lower Cretaceous Viking and Basal Quartz sandstones form a back up objective in this area reducing somewhat the risk element.

#### **3. Cessford:**

The Company has interests in Petroleum and Natural gas leases covering 11,520 gross acres located in the Cessford area of Alberta. The acreage comprises two blocks one of 5,120 acres, in which the Company has 8.125% interest and the other of 6,400 acres in which the Company has a

25% interest. This area has excellent possibilities for the discovery and production of natural gas.

#### **4. Clive East:**

The Company has 50% interest in 320 acres, and an option on a further 160 acres which lies between two producing areas. The prospect has excellent possibilities for both D2 and D3 production.

#### **5. Halkirk:**

The Company has a 100% working interest in a 320 acre natural gas lease located in the Halkirk area of Alberta. This area has good possibilities for the discovery of natural gas reserves.

#### **6. North Eaglesham Area:**

The Company has farmed out its interests in a 1920 gross acre Petroleum and Natural Gas lease located in Township 78, page 24, W5M for an exploratory well to be drilled. In the event that the well is completed, your Company will retain a 1.25% free carried interest through the drilling and completion of the first well.

#### **7. Dixonville Area:**

Your Company has farmed out its acreage for a seismic program along with an option for a well to be drilled by others. Your Company will retain a 1.25% free carried interest through the drilling and completion of the first well.

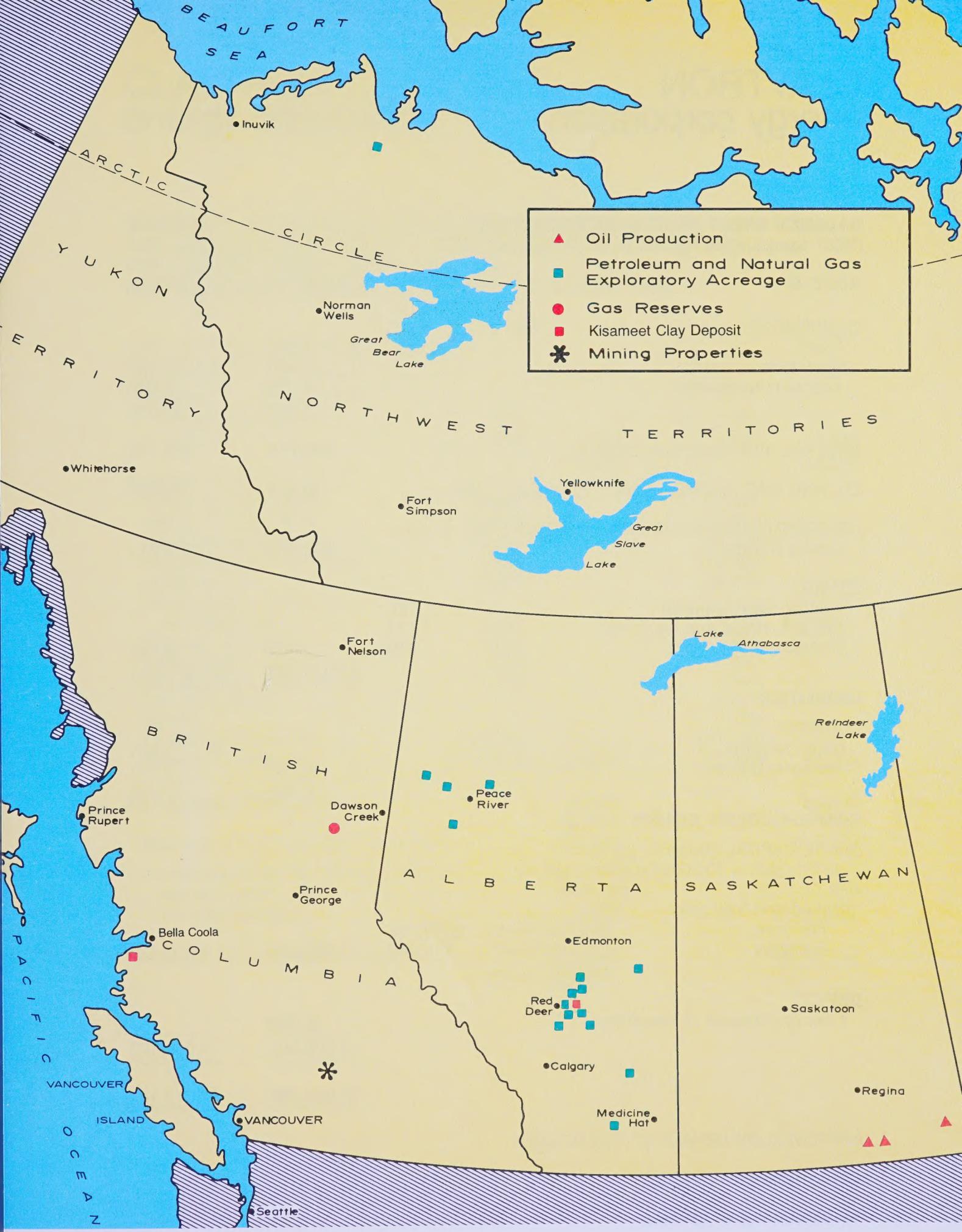
The petroleum and natural gas leases cover 1920 gross acres and are located in Township 87, Range 2, W6M.

### **MINING PROPERTIES:**

Currently, the Company is evaluating the development of mining properties in foreign areas encompassing a variety of minerals with special attention to gold and silver.

#### **The Ski Group—Highland Valley, B.C.:**

This copper prospect of 12 claims is 100% owned by Claytron. An induced polarization survey has been completed on the claims by Seigel Associates, a world leader in this type of work. Two anomalous areas were disclosed by the survey. Some trenching and stripping has been done over the anomalous area.



# CLAYTRON energy corporation

## BALANCE SHEET AS AT 31 OCTOBER 1976 (With comparative figures as at 31 October 1975)

Exhibit A

ASSETS	1976	1975
<b>CURRENT</b>		
Cash .....	\$ 1,611	
Bank term deposits .....	7,000	\$ 33,000
Accounts receivable .....	<u>3,766</u>	<u>3,000</u>
	<u>12,377</u>	<u>36,000</u>
MINERAL RIGHTS, at cost (Note 2) .....	376,740	376,740
OIL AND GAS RIGHTS, at cost—Schedule 1 (Note 2) ....	35,236	33,005
<b>DEFERRED EXPLORATION AND DEVELOPMENT COSTS</b>		
Exhibit B (Note 2) .....	605,641	558,312
<b>OTHER</b>		
Incorporation expense .....	\$ 1,728	
Office furniture and equipment .....	1,117	
Deposit .....	<u>460</u>	<u>3,305</u>
	<u>1,033,299</u>	<u>9,084</u>
		<u>\$1,013,141</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank overdraft .....		\$ 3,581
Accounts payable .....	<u>6,798</u>	<u>3,137</u>
	<u>6,798</u>	<u>6,718</u>
<b>SHAREHOLDERS' EQUITY</b> (note 2)		
SHARE CAPITAL (Notes 1, 3 & 5)		
Authorized — 10,000,000 shares without par value		
Issued and fully paid —		
For cash	265,758 shares	\$616,751
For rights	<u>193,250</u> shares	<u>415,250</u>
	<u>459,008</u> shares	
		1,032,001
		1,006,423
<b>DEFICIT</b>		
Loss on disposal of investment .....	(5,500)	
	<u>1,026,501</u>	<u>1,006,423</u>
	<u>\$1,033,299</u>	<u>\$1,013,141</u>

APPROVED ON BEHALF OF THE BOARD:

"GARY SCHELL", Director

"GORDON YUEN", Director

# CLAYTRON

## energy corporation

**STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT  
AND ADMINISTRATIVE COSTS  
FOR THE YEAR ENDED 31 OCTOBER 1976  
(With comparative figures for the year ended 31 October 1975)**

Exhibit B

	1976	1975
<b>EXPLORATION AND DEVELOPMENT</b>		
Oil and gas—Schedule 1 .....	\$ 12,604	\$ 12,090
Mineral		
Consulting fees .....	\$ 973	\$ 563
Sundry .....	<u>612</u>	<u>875</u>
	<u>1,585</u>	<u>1,438</u>
	<u>14,189</u>	<u>13,528</u>
<b>ADMINISTRATIVE</b>		
Travel and promotion .....	15,530	22,621
Office and telephone .....	13,925	13,314
Management fees .....	12,000	9,000
Accounting and audit fees .....	4,485	4,500
Legal fees .....	3,060	3,751
Shareholders' information and meetings .....	2,600	3,718
Transfer agent fees .....	1,352	1,489
Listing fees .....	700	300
Depreciation .....	279	349
Valuation report .....		2,627
Sundry .....		378
Oil and gas revenue—net .....	<u>(21,295)</u>	<u>(11,730)</u>
Interest income—net .....	<u>(1,265)</u>	<u>31,371</u>
	<u>31,371</u>	<u>46,378</u>
<b>NET COSTS FOR THE YEAR .....</b>	<b>45,560</b>	<b>59,906</b>
Balance of costs at beginning of year .....	558,312	452,229
Acquisition costs of rights abandoned		
Mineral rights .....		41,250
Oil and gas rights .....	<u>1,769</u>	<u>4,927</u>
<b>BALANCE 31 OCTOBER—Exhibit A .....</b>	<b><u>\$605,641</u></b>	<b><u>\$558,312</u></b>

# CLAYTRON energy corporation

**SOURCE AND APPLICATION OF FUNDS STATEMENT  
FOR THE YEAR ENDED 31 OCTOBER 1976**  
(With comparative figures for the year ended 31 October 1975)

Exhibit C

	1976	1975
<b>SOURCE OF FUNDS</b>		
Sale of treasury shares .....	\$ 25,578	
Oil and gas revenue .....	21,295	\$ 11,730
Interest income .....	1,265	3,939
Mortgage principal receipts .....		<u>22,265</u>
	<u>48,138</u>	37,934
<b>APPLICATION OF FUNDS</b>		
Exploration, development and administrative cash costs .....	\$ 67,841	\$ 72,226
Purchase of oil and gas rights .....	4,000	
Purchase of office equipment .....	<u>71,841</u>	997
		<u>73,223</u>
DECREASE IN WORKING CAPITAL .....	(23,703)	(35,289)
Working capital—beginning of year		
Current assets .....	36,000	86,654
Current liabilities .....	<u>6,718</u>	<u>22,083</u>
		<u>64,571</u>
<b>WORKING CAPITAL—31 OCTOBER</b>		
Current assets .....	\$ 12,377	\$ 36,000
Current liabilities .....	<u>6,798</u>	<u>\$ 5,579</u>
		<u>\$ 29,282</u>

# CLAYTRON energy corporation

**SCHEDULE OF OIL AND GAS RIGHTS ACQUISITION  
COSTS AS AT 31 OCTOBER 1976  
AND  
OIL AND GAS EXPLORATION AND DEVELOPMENT COSTS  
FOR THE YEAR ENDED 31 OCTOBER 1976**

Schedule 1

AREA	Oil & Gas Acquisition Costs	Exploration and Development Costs
Alberta, Canada		
Haynes South Clive .....	\$ 494	
Clive East .....	1,087	\$ 136
Taber .....	250	
Wood River .....	2,508	
Viking Kinsella .....	500	
Halkirk .....	1,815	320
Cessford .....		2,560
Kneehill .....		785
Sylvan Lake .....		109
North Levis .....	4,000	80
North Eagleshan .....		48
Graham Lake .....		48
Three Creeks .....		36
Saskatchewan, Canada		
South Parkman .....	18,273	
North Weyburn .....	5,033	97
Hume .....	176	3
British Columbia, Canada		
Monkman Pass .....	1,100	
German North Sea		
Block J2 .....		8,382
BALANCE 31 OCTOBER 1976—Exhibit A .....	<u>\$ 35,236</u>	
TOTAL FOR THE YEAR—Exhibit B .....		<u>\$ 12,604</u>

# CLAYTRON energy corporation

## NOTES TO FINANCIAL STATEMENTS

31 October 1976

### 1. REORGANIZATION

By resolution passed at a special general meeting of the company held on 25 November 1976 the following changes in the affairs of the company were effected:

- (a) The name of the company was changed to Claytron Energy Corporation from Geoquest Resources Ltd.
- (b) The capital of the company was consolidated on the basis of one new share for each four old shares.
- (c) The authorized capital was increased to 10,000,000 shares without par value.

These changes have been reflected in the attached statements.

### 2. MINERAL RIGHTS, OIL AND GAS RIGHTS AND DEFERRED EXPLORATION AND DEVELOPMENT COSTS

The company is in an exploratory stage of operations. Until such time as an economic level of activity has been attained, all costs are being capitalized. Revenue received during this period is being deducted from the costs.

The amounts shown on the attached balance sheet for the above noted items represent amounts expended to date and are not intended to reflect present or future values.

### 3. SHARE CAPITAL

- (a) During the year ended 31 October 1976 there were 106,000 old shares (26,500 new shares) issued for cash in the amount of \$25,578.
- (b) 158,950 new shares are held in escrow to be released only with the consent of the governing regulatory bodies.

### 4. REMUNERATION OF OFFICERS AND DIRECTORS

During the year ended 31 October 1976 the total direct remuneration paid to the officers and directors of the company was \$12,000.

### 5. SUBSEQUENT EVENTS

- (a) A private placement was arranged for the sale of 210,000 new treasury shares at a price of 40¢ per share for a total of \$84,000.
- (b) On 15 November 1976 the company exercised an option to purchase a clay mineral lease from Quest Industries Ltd. for \$21,000 cash and 10% of the net profits of all monies received from the sale of clay from the property.
- (c) By agreement dated 26 November 1976 the company purchased all of the outstanding shares of Quest Industries Ltd. for \$20,000.

(d) By agreement dated 15 December 1976 the company has agreed to provide financial advertising assistance of \$100,000 to its European distributor of clay products for a royalty consideration of 10% of the sales of clay until 1 January 1982 and 5% thereafter. The \$100,000 is to be paid as follows:

15 February 1977 — \$ 20,000  
1 March 1977 — \$ 40,000  
1 September 1977 — \$ 40,000

(e) By agreement dated 2 January 1977 the company retained Protex Consultants Ltd. to provide management services in relation to the promotion and sale of clay products during the period from 1 January 1977 to 31 August 1985.

For its services, Protex Consultants Ltd. shall receive a reasonable amount for fees and expenses. In addition, Protex Consultants Ltd. has been granted a royalty on net profits of all monies received as a result of the sale of clay on a year-to-year basis as follows:

- (i) A 10% royalty on net profits on the first \$500,000 net profit received by the company.
- (ii) A 8% on net profits on the second \$500,000 net profit received by the company.
- (iii) A 6% royalty on net profits on the third \$500,000 net profit received by the company.

If yearly net profits decline below fifteen (15%) percent from the sale of clays, the company has the right to cancel the above captioned agreement.

**SMITH, FLYNN, STALEY & CO.**

225 - 4299 CANADA WAY,  
BURNABY, B.C. V5G 1H3  
TELEPHONE: 434-1384

**CHARTERED ACCOUNTANTS**

R. C. SMITH C.A.  
A. R. FLYNN C.A.  
D. L. STALEY C.A.

#### **AUDITORS' REPORT**

To the Shareholders of  
Claytron Energy Corporation

We have examined the balance sheet of Claytron Energy Corporation as at 31 October 1976 and the statements of deferred exploration, development and administrative costs and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at 31 October 1976 and the cost of its exploration activities and the source and application of its funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

7 February 1977

**SMITH, FLYNN, STALEY & CO.**  
Chartered Accountants



# CLAYTRON ENERGY CORPORATION

ANNUAL REPORT 1976